

Message Text

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ACTION EA-10

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INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

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SUBJECT: ROKG ECONOMIC RELATIONS WITH IRAN AND SAUDI ARABIA

REF: A. SEOUL 3378 B. SEOUL 3163

SUMMARY: THE SUCCESSFUL NEGOTIATION OF THE FOURTH REFINERY PROJECT WITH NATIONAL IRANIAN OIL COMPANY PRESIDENT EGH BOL IN THE EYES OF THE ROKG REPRESENTS A MAJOR BREAKTHROUGH IN ITS EFFORTS TO OBTAIN FINANCIAL SUPPORT FROM THE MIDEAST OPEC COUNTRIES. THE PRIME MINISTER'S RECENT VISIT TO SAUDI ARABIA HAS RESULTED IN IMPROVED PROSPECTS FOR THE CONCLUSION OF LOAN NEGOTIATIONS WITH THE SAUDIS WHICH MAY REACH A TOTAL OF 500 MILLION DOLLARS IN PROJECTS AND FOREIGN EXCHANGE LENDING. THE ROKG IS NOW SEEKING TO OBTAIN SAUDI AND IRANIAN PARTICIPATION IN THE IBRD KOREAN CONSULTATIVE GROUP MEETING IN PARIS THIS JULY. END SUMMARY.

1. DEPUTY PRIME MINISTER, NAM DUCK WOO, IN A CONVERSATION WITH AMBASSADOR REPORTED THAT THE NEGOTIATIONS WITH NATIONAL
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IRANIAN OIL COMPANY (NIOC) PRESIDENT EGH BOL FOR A FOURTH

REFINERY HAD BEEN SUCCESSFUL. THIS PROJECT, A JOINT VENTURE BETWEEN THE NIOC AND THE SSANGYONG CEMENT COMPANY, IS SUBJECT TO APPROVAL OF THE IRANIAN GOVERNMENT WHICH NAM BELIEVES IS VIRTUALLY ASSURED. IN ADDITION TO THE REFINERY, NAM ANTICIPATES THAT THE IRANIAN GOVERNMENT WOULD PROVIDE ADDITIONAL PROJECT FINANCING FOR KOREA BUT STATES THAT EGH BOL AS PRESIDENT OF NIOC WAS NOT IN A POSITION TO NEGOTIATES SUCH MATTERS.

2. NAM REPORTED THAT, AS RESULT OF PRIMIN KIM CHONG-PIL'S VISIT, PROSPECTS FOR SAUDI ARABIAN LOANS MUCH IMPROVED. THE ROKG WAS ACTIVELY NEGOTIATING WITH THE SAUDI ARABIAN GOVERNMENT FOR APPROXIMATELY 300 MILLION DOLLARS IN PROJECT FINANCING. THIS ASSISTANCE WOULD BE ADMINISTERED BY THE RECENTLY ESTABLISHED SAUDI DEVELOPMENT AGENCY (SDA) AND WOULD FINANCE PROJECTS WHICH HAD BEEN DEVELOPED IN CONSULTATION WITH THE IBRD. SAUDI TECHNICAL TEAM EXPECTED VISIT ROK SOON FOR FURTHER NEGOTIATIONS. IN ADDITION, NAM WAS OPTIMISTIC ON 200 MILLION DOLLAR FOREIGN EXCHANGE LOAN. HE THOUGHT HE WOULD PROBABLY VISIT SAUDI ARABIA TO WORK OUT FINAL DETAILS.

3. NAM INFORMED THE AMBASSADOR THAT THE ROKG INTENDED TO INVITE BOTH THE SAUDIS AND THE IRANIANS TO PARTICIPATE IN THE CONSULTATIVE GROUP MEETING TO BE HELD IN PARIS IN EARLY JULY.

4. IN A SUBSEQUENT MEETING WITH LEE SUN-KI, ASSISTANT MINISTER FOR ECONOMIC COOPERATION, EPB, HE ELABORATED ON THE CURRENT NEGOTIATIONS WITH BOTH THE IRANIANS AND SAUDIS. HE CONFIRMED THAT THE NIOC-SSANGYONG JOINT VENTURE FOR A REFINERY OF APPROXIMATELY 60 TO 100 THOUSAND BARRELS PER DAY CAPACITY WAS SUBJECT ONLY TO FINAL IRANIAN GOVERNMENT APPROVAL WHICH HE CONSIDERED PROFORMA. THIS PROJECT WILL BE CONSIDERED PART OF A PROGRAM OF ECONOMIC COOPERATION BETWEEN IRAN AND KOREA UNDER AN ECONOMIC COOPERATION AGREEMENT WHICH IS SCHEDULED TO BE SIGNED ON MAY 20. LATER DURING MID-JUNE AN IRANIAN/KOREAN MINISTERIAL MEETING IS SCHEDULED TO CONVENE IN TEHRAN. DEPUTY PRIME MINISTER NAM PROBABLY WILL LEAD THE KOREAN DELEGATION. THE ROKG HOPES LIMITED OFFICIAL USE

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TO NEGOTIATE CAPITAL ASSISTANCE POSSIBLY IN THE FORM OF NON-PROJECT LOANS, TRADE AGREEMENTS AND PROJECT FINANCING. LEE BELIEVES THAT THE IRANIANS ALSO MAY AGREE TO PROVIDE MEDIUM OR LONG TERM CREDIT FOR PETROLEUM. THE NIOC IS NOT AUTHORIZED TO EXTEND CREDIT FOR ITS PRODUCTS BUT THE ROKG HOPES THAT THE IRANIAN GOVERNMENT MAY AGREE TO PROVIDE THE FINANCING.

5. LEE REPORTED THAT THE ROKG IS CONTINUING ITS CONSULTATIONS WITH THE SAUDIS REGARDING AN "ECONOMIC COOPERATION" PACKAGE OF APPROXIMATELY 500 MILLION DOLLARS. THE ROKG HOPES TO OBTAIN APPROXIMATELY 300 MILLION DOLLARS THROUGH THE SDA FOR PROJECT FINANCING. HE CONFIRMED THAT THE SAUDI GOVERNMENT ADVISED THE ROKG THAT IT WOULD CONSIDER FOR FINANCING BY THE SDA ONLY THOSE PROJECTS WHICH HAD BEEN REVIEWED AND APPROVED BY THE IBRD. HE ALSO SPECULATED ON THE POSSIBILITY OF SAUDI REFINANCING FOR PROJECTS IMPLEMENTED BY THE IBRD BUT CAUTIONED THAT THIS CONCEPT HAD NOT YET BEEN SERIOUSLY DISCUSSED. THE REMAINING 200 MILLION DOLLARS OF THE PACKAGE WOULD TAKE THE FORM OF A CASH LOAN TO ALLEVIATE KOREA'S CURRENT BALANCE OF PAYMENTS SITUATION. LEE SAID KING FAISAL HAD AGREED TO SUCH ASSISTANCE BUT THAT THE FORM AND THE PROCEDURES OF THE LAON HAD BEEN LEFT TO THE SAUDI MONETARY AGENCY (SMA). THIS ASSISTANCE WOULD PROBABLY TAKE THE FORM OF A DIRECT LOAN FROM THE SMA TO THE BANK OF KOREA, BUT HE SAID THE TERM AND CONDITIONS HAD NOT YET BEEN WORKED OUT.

6. COMMENT: NAM AND HIS COLLEAGUES IN THE ROKG OBVIOUSLY ARE ENCOURAGED BY THE FINAL SUCCESS OF THEIR PROTRACTED NEGOTIATIONS FOR IRANIAN FINANCING FOR THE FOURTH REFINERY AND THEY ARE LOOKING TO IRAN FOR ADDITIONAL FINANCING ALONG THE LINES REPORTED IN PARA 2 REF A. THEY ARE ALSO OPTIMISTIC REGARDING THE PROSPECTS FOR SUBSTANTIAL ASSISTANCE FROM THE SAUDIS. THE ROKG DECISION TO SEEK THE PARTICIPATION OF THE SAUDIS AND THE IRANIANS AT THE CONSULTATIVE GROUP MEETING REFLECTS THEIR HOPE AND EXPECTATION OF SIGNIFICANT FINANCIAL SUPPORT FROM THE SAUDIS AND THE IRANIANS.
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